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C O N F I D E N T I A L SECTION 01 OF 03 TOKYO 000077

SIPDIS

TREASURY FOR DOHNER, WINSHIP, AND FOSTER  
STATE FOR E, EEB AND EAP/J  
NSC FOR DANNY RUSSELL AND JIM LOI  
USTR FOR AUSTR CUTLER, BEEMAN, LEE AND HOLLOWAY

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SUBJECT: GOJ ADOPTS LONG-TERM GROWTH STRATEGY BLUEPRINT

Classified By: DCM James P. Zumwalt, reasons 1.4 (b) and (d).

**¶1.** (SBU) Summary: Stung by the common critique that it has focused excessively on income redistribution without a broader vision for economic growth, the Hatoyama Cabinet adopted the blueprint of a long-term growth strategy on December 30. Entitled "Toward a Shining Japan," the strategy criticizes past governments for their (1) public works spending or (2) supply-side structural reforms, and instead, calls for a still-fuzzy "third way" of creating demand and employment.

**¶2.** (U) The strategy targets average annual nominal GDP growth of more than 3 percent over the next ten years, arriving at JPY650 trillion (US\$7.1 trillion) in FY2020. It also sets an average annual real GDP growth target of more than 2 percent over the same period. The strategy projects that three priority fields -- environment, health care, and tourism -- will generate a total of JPY105 trillion (US\$1.1 trillion or 22 percent of GDP) in new demand and create a total of 4.76 million new jobs by 2020. The Administration will develop a detailed road map for the strategy by June 2010. End Summary.

#### Growth Strategy Targets

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**¶3.** (U) The 29-page growth strategy was formulated by Prime Minister Hatoyama's Growth Strategy Formation Council, in consultation with Deputy Prime Minister (and recently named Finance Minister) Naoto Kan's National Policy Unit. The strategy includes three macroeconomic targets -- nominal GDP growth, real GDP growth, and the unemployment rate -- over the next ten years. The plan sets a target level for nominal GDP of JPY650 trillion (US\$7.1 trillion) in FY2020, and the required average annual nominal GDP growth rate of 3.2 percent from FY2011 - 2020 to hit that target.

**¶4.** (U)

#### Macroeconomic Targets

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##### Average Annual Growth Rate

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Nominal GDP	3 percent or higher
Real GDP	2 percent or higher

##### Medium-Term Objective

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Jobless Rate	3 percent range
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15. (U)

Numerical Targets

	New Demand (JPY trillion)	New Jobs (10,000)
Environment	50	140
Health Care	45	280
Tourism	10	56
TOTAL	105	476

16. (SBU) The plan also sets an average annual real GDP growth rate of more than 2 percent for the same ten-year period. The nominal and real growth targets imply an average annual inflation rate of roughly 1 percent in the ten-year period. (Note: The annual real GDP growth rate is ambitious given the current potential growth rate, estimated at about 1.0 percent by the Cabinet Office and about 0.5 percent by the Bank of Japan. While the strategy argues that nominal growth increases household income and allows the public to "feel" growth, ultimately it is the independent Bank of Japan, not the government, which has responsibility for inflation and the broader price level in the economy. The BOJ currently defines price stability as CPI "in a positive range of 2 percent or lower, and most Policy Board members' understanding of the midpoint is around 1 percent." End note.) These macroeconomic targets will be used in developing a new fiscal consolidation plan scheduled to be

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released in June 2010. In addition, the plan targets a reduction in the unemployment rate from the current 5.2 percent to around 3 percent in the medium term.

Focus Areas

17. (U) The plan identifies six areas for the creation of new demand and jobs:

-- Environment and Energy

18. (U) The government targets JPY50 trillion (US\$544 billion) in new demand and 1.4 million new jobs through policy measures such as the promotion of renewable energy, energy-efficient homes, and next-generation vehicles.

-- Health Care

19. (U) The government targets JPY45 trillion (US\$489 billion) in new demand and 2.8 million new jobs through policy measures such as greater entry of private businesses into medical and nursing-care services, medical research and development, and increased elderly-accessible housing.

-- Tourism and Regional Revitalization

110. (U) The government targets JPY10 trillion (US\$109 billion) in new demand and 560,000 new jobs by increasing the number of foreign tourists from 8 million in 1998 to 25 million by 2020 through steps such as easier-to-obtain tourist visas. The government also looks to raise Japan's food-self-sufficiency rate from 41 percent in 2008 to 50 percent by 2020.

111. (U) The strategy suggests that the above three priority fields -- environment, health care, and tourism -- would generate a total of JPY105 trillion in new demand and create a total of 4.76 million new jobs by 2020.

-- Asia Pacific

112. (U) The strategy calls for a road map to formulate a Free

Trade Area of Asia (FTAAP)-- a free-trade agreement by the 21 APEC members, by 2020. It offers support for efforts to double Asian countries' income. In addition, Tokyo's Haneda airport would become a 24-hour hub for international flights.

-- Science and Technology

¶13. (U) The government will seek to increase the aggregate level of research and development spending by both the public and private sectors from 3.8 percent of GDP in FY2008 to more than 4 percent by 2020.

-- Human Resources

¶14. (U) The strategy indicates the government will step up efforts to assist families with children, and promote the participation of women and the elderly in the labor market. In addition, the plan calls for improving safety net programs and job training for the unemployed, and halving the number of "freeters" as well as reducing the number of "neets" by ¶2020. (Note: "Freeter," an amalgamation of "free time" and the German "arbeiter", refers to part-time workers aged 15 to 34, excluding students and housewives. The number of freeters in Japan is estimated at about 1.8 million. "Neet" is a British acronym for "Not in Employment, Education, or Training." The number of neets in Japan aged 15 to 34 is estimated to be about 0.6 million. End note.)

Comment

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¶15. (C) The blueprint reads more like a set of goals rather than a strategy to achieve them, and given the priority areas it is unclear whether even the more detailed version, due in June 2010, will address long-term growth more realistically. The blueprint has been coolly received by private analysts, who note a tone of distrust for market mechanisms, and a lack of focus on the most important key to increasing Japan's

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long-term growth potential -- greater productivity particularly in the labor market and services sector. Analytically, it is unclear how or even whether the sectoral demand figures are related to the broader macroeconomic targets.

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